

SENATE BILL REPORT

ESSB 6573

As Amended by House, March 7, 2008

Title: An act relating to providing additional revenues for public safety, including law enforcement officers and firefighters plan 2 pension plan benefits.

Brief Description: Providing additional revenues for public safety.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kilmer, Brandland, Kauffman, Delvin, Benton, Roach, McAuliffe and Rasmussen; by request of LEOFF Plan 2 Retirement Board).

Brief History:

Committee Activity: Ways & Means: 2/5/08, 2/12/08 [DPS].

Passed Senate: 2/19/08, 48-1.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6573 be substituted therefor, and the substitute bill do pass.

Signed by Senators Fraser, Vice Chair, Capital Budget Chair; Pridemore, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Brandland, Carrell, Hatfield, Hewitt, Hobbs, Honeyford, Keiser, Kohl-Welles, Parlette, Rasmussen, Regala, Roach, Rockefeller, Schoesler and Tom.

Staff: Erik Sund (786-7454)

Background: The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) provides retirement benefits to full-time, fully-compensated law enforcement officers and fire fighters employed by the State, cities, counties, and special districts and who were first employed in an eligible position on or after October 1, 1977.

LEOFF 2 is funded by contributions to the LEOFF 2 Retirement Fund from member, employer, and State contributions, as well as investment earnings on the funds contributed. The total level of contributions required in a given period is allocated as follows: 50 percent is paid by the members, 30 percent is paid by employers, and the remaining 20 percent is paid by the State. Investment of monies in the LEOFF 2 Retirement Fund is handled by the State Investment Board (SIB).

The Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 Board (the Board) is responsible for the adoption of the economic assumptions, actuarial methods, and contribution rates LEOFF 2. The Board also studies issues related to plan funding and

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benefits, and recommends legislation to the Legislature as required. The expenses of the board are paid from the LEOFF 2 Retirement Fund, with the LEOFF 2 Expense Fund serving as an intermediary expense account. The day-to-day administration of LEOFF 2 is handled by the Department of Retirement Systems (DRS).

Summary of Engrossed Substitute Bill: Beginning in 2011, by September 30 following each fiscal biennium in which general state revenue collections increase by more than 3 percent from the prior fiscal biennium, the Legislature may appropriate funds for transfer to a new Local Public Safety Enhancement Account (LPSEA). The amounts of the transfers to the LPSEA are: \$5 million after the 2009-11 fiscal biennium; \$10 million after the 2011-13 fiscal biennium; \$20 million after the 2013-15 fiscal biennium; and, after any subsequent fiscal biennium, the lesser of one-third of the general revenue increase amount or \$50 million. All transfers to the LPSEA are subject to appropriation. Half of the funds moved to the LPSEA are to be transferred to a new Law Enforcement Officers' and Fire Fighters' Retirement System Benefits Improvement Account (Benefits Improvement Account) created within the LEOFF 2 Retirement Fund. The remaining funds in the LPSEA are distributed to local governments for public safety purposes. General state revenues means total revenues to the General Fund-State less state revenues from property taxes. Money transferred to the Benefits Improvement Account can only be used to fund the member, employer, and state cost of financing benefit improvements adopted by the LEOFF 2 Retirement Board or to cover the investment-related expenses of the account. The State Investment Board (SIB) is authorized to adopt investment policies and invest the money in the benefits improvement account. The LEOFF 2 Board is given the authority to establish all other policies relating to the benefits improvement account, which must be administered in an actuarially sound manner. Funds in the benefits improvement account must not be considered assets of the plan and included in contribution rate calculations by the State Actuary until so directed by the LEOFF 2 Board for purposes of financing benefits adopted by the board.

The State Treasurer is responsible for the distribution of the remaining funds in the LPSEA to local governments. Each jurisdiction's allocation is proportionate to the share of LEOFF 2 membership that it employs. In the event that two jurisdictions have a contract for the provision of law enforcement or fire protection services, the two parties must agree on a revenue sharing arrangement before funds will be distributed. LPSEA funds may only be used for the purposes of enhancement of criminal justice services, information and assistance programs for families of at-risk or runaway youth, or other public safety purposes.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: This bill is the first priority of the LEOFF Plan 2 Retirement Board. The retirement age in LEOFF 2 reflects the physically demanding nature of a career in fire fighting or law enforcement; however the benefit formula does not. The current benefit design does not produce a sufficient level of retirement income. In 2006 the average LEOFF 2 member leaving service due to retirement received a take-home benefit sufficient to replace just 38 percent of the member's working salary. Working

until a later age may allow members to earn a greater benefit, but the physical demands are often to great and public safety employees are at a much greater risk of injury after age 50. This bill would also assist local governments in meeting the ever increasing cost of providing adequate public safety services, and in recruiting and retaining qualified fire fighters, and especially law enforcement officers. A substitute bill is being negotiated that will phase in the fund transfers in order to ease the fiscal impact on the state. These investments are appropriate today, and will only cost more if delayed until a future date.

Persons Testifying: PRO: Jamie Daniels, Washington Council of Police & Sheriffs; Kelly Fox, Washington State Council of Fire Fighters; Bill Hansen, Executive Director, Fraternal Order of Police; Jim Justin, Association of Washington Cities; Ron Main, Council of Metropolitan Police and Sheriffs; Steve Nelsen, LEOFF Plan 2 Retirement Board.

House Amendment(s): The monies in the LEOFF 2 Benefit Improvement Account (BIA) may only be used to pay for benefits enacted by the Legislature. BIA funds may not be used to purchase benefits proposed by the LEOFF Plan 2 Board. Additionally, benefits may only be purchased using BIA funds if the State Actuary determines that the actuarial present value of the revenues provided by the general state revenue transfers to the LPSEA is equal to or greater than the actuarial present value of cost of providing the proposed benefits for both current and future members.

The maximum amount the September 30, 2017, transfer of state revenues to the LPSEA and subsequent transfers is increased from \$20 million to \$50 million. Transfers to the LPSEA are still subject to appropriation by the Legislature.

Clarifications are made to the portion of the bill describing how LPSEA funds will be transferred to local governments and how such transfers may not be used to supplant existing funds provided for such purposes.